

Calculating Developer Contributions

A Value Capture Clinic



Introductions

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Session Outline

- Value Capture
- Calculating Contribution Potential
- Legal Foundations/Developer Perspectives
- Development Phasing and Infrastructure Financing
- Community Involvement
- Q & A

Value Capture

What is it?

- Public financing tool that recovers some or all the value that public actions create for private landowners
- Public decisions/Private implications
- Unearned value captured and converted into public revenue for public benefit

Value capture in practice

- Tax-Increment Financing
- Special assessment or Improvement Districts
- Impact fees
- Developer Contributions

Value Capture

Calculating Potential

Legal Foundations

Developer Perspectives

Creating Better Plans

Understanding financial feasibility results in better plans

- Plans balance redevelopment incentives and community benefits
- Plans are implementable
 - Planned development will occur
 - Infrastructure and amenities will be provided
- Plans have greater community buy-in

Value Capture

Calculating Potential

Legal Foundations

Developer Perspectives

Public Actions / Private Value

Braddock Master Plan



Value Capture

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Public Actions / Private Value

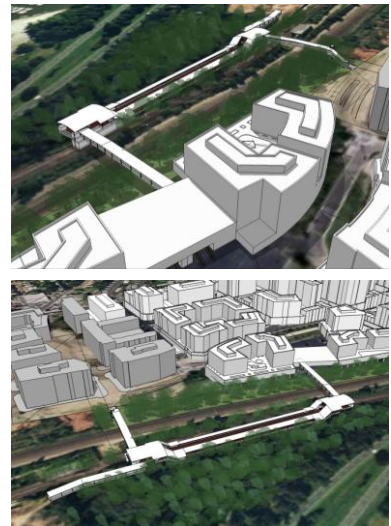
North Potomac Yard Small Area Plan



Value Capture



Calculating Potential



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Developer Perspectives

Public Actions / Private Value

Landmark/Van Dorn Corridor Plan



Value Capture

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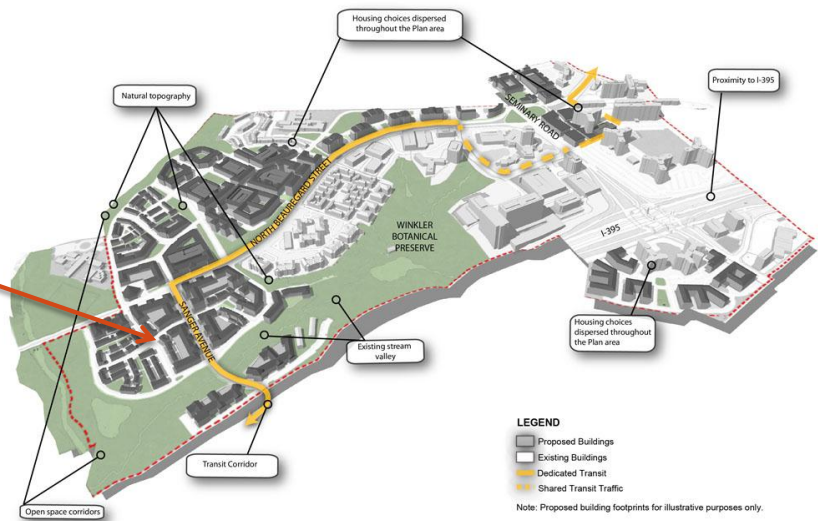
Developer Perspectives

Public Actions / Private Value

Beauregard Small Area Plan



Value Capture



Calculating Potential

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The Bucket Concept

- What is “the Bucket” ?
- What goes in the Bucket?
- Negotiation with developers



Value Capture

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Developer Perspectives

Calculating Contribution Potential

Approaches and case studies
calculating developer contributions

Why?

- Understand the economic implications of re-zoning to determine equitable public/private funding
- Test the economic feasibility of Plans to manage expectations and allow for informed decision-making

Calculating Potential

Legal Foundations

Developer Perspectives

Development Phasing

Economics of Rezoning

Basic Concept

- By a stroke of a regulatory pen, property owners can reap new value.
- The community should capture some of this value.

Basic Concept Economics of Re-Zoning			
	Existing Zoning	New Zoning	Difference
Zoning Max # of Units	15	55	40
Land Value /Unit	\$25,000	\$25,000	\$25,000
Market Value	\$375,000	\$1,375,000	\$1,000,000

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Developer Perspectives

Development Phasing

Economics of Rezoning

Key Factors to Consider

- Is there is market to absorb re-zoning's additional density?

Market Considerations Economics of Re-Zoning			
	Existing Zoning	New Zoning	Difference
Zoning Max # of Units	15	55	40
Market Demand	15	15	0
Land Value /Unit	\$25,000	\$25,000	\$25,000
Market Value	\$375,000	\$375,000	\$0

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Development Phasing

Economics of Rezoning

Key Factors to Consider

- Are there additional costs associated with developing under the new zoning?

Construction Cost Implications Economics of Re-Zoning			
	Existing Zoning	New Zoning	Difference
Zoning Max # of Units	15	55	40
Structured Parking Cost	0	(\$20,000)	(\$20,000)
Land Value /Unit	\$25,000	\$25,000	\$25,000
Market Value	\$375,000	\$275,000	(\$100,000)

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Development Phasing

Economics in Planning Examples

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Development Phasing

Beauregard Plan

Calculate the economic benefit to property owners of an up-zoning...

- Conditions

- Near-Term Market for Higher Density Land Uses
- Property Owners with Land Available for Additional Development
- Road, Utility, and Transit Improvements Necessary to Support Development



- Critical Consideration

- Higher Density Plan Will Not be Approved By City without Financing Plan



Calculating Potential

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Development Phasing

Calculating Economic Benefit: Basic

1. Identify Current Land Values

- Calculate
- Consult Appraiser/Tax Records

Estimated Existing Zoning Land Value						
	Program		Land Value /Unit		Land Value	
	Sq Ft	Units	Lower	Higher	Lower	Higher
Multi-Family	1,027,953	878	\$45,000	\$55,000	\$39,510,000	\$48,290,000
Townhouse	0		\$135,000	\$165,000	\$0	\$0
Office	0		\$33.00	\$35.00	\$0	\$0
Hotel	0		\$35,000	\$40,000	\$0	\$0
Retail	0		\$36.00	\$40.00	\$0	\$0
	1,027,953				\$39,510,000	\$48,290,000

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Development Phasing

Calculating Economic Benefit

1. Identify Current Land Values
2. Calculate New Value with New Zoning

Net New Land Value with Master Plan						
	Program		Land Value /Unit		Land Value	
	Sq Ft	Units	Lower	Higher	Lower	Higher
Multi-Family	1,607,163	1,472	\$47,250	\$57,750	\$69,552,000	\$85,008,000
Townhouse	0		\$141,750	\$173,250	\$0	\$0
Office	0		\$34.65	\$36.75	\$0	\$0
Hotel	0		\$36,750	\$42,000	\$0	\$0
Retail	0		\$37.80	\$42.00	\$0	\$0
	1,607,163	1,472			\$69,552,000	\$85,008,000

Calculating Potential

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Development Phasing

Calculating Economic Benefit

- 1. Identify Current Land Values
- 2. Calculate New Value with New Zoning
- 3. Calculate the Difference

	Lower	Higher
Existing Land Value	\$69,552,000	\$85,008,000
Re-Zoned Land Value	\$39,510,000	\$49,290,000
Economic Benefit	\$30,042,000	\$35,718,000

Developer contribution occurs on a per square foot basis at time of approval.



North Potomac Yard

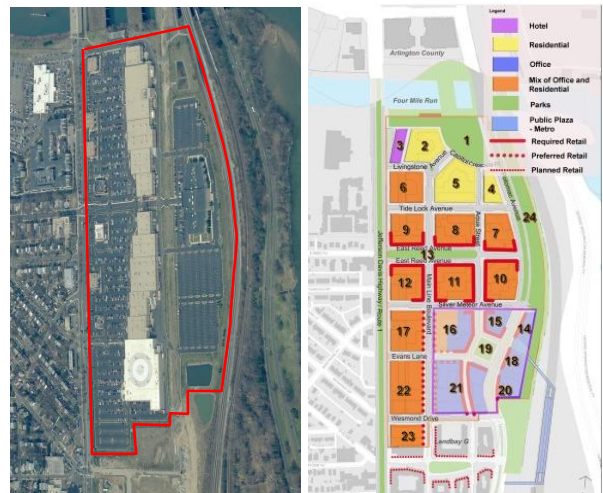
Calculate the economic benefit to property owners of transit...

• Conditions

- Successful Power Center Currently
- Interest in Intensification of Use
- Introduction and funding of Metro Station

• Critical Consideration

- How to deal with different future economic conditions



Calculating Potential

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Development Phasing

Calculating Economic Benefit:

1. Identify Current Land Values

- Calculate
- Consult Appraiser/Tax Records

Existing Condition Potomac Yard Retail Center

Land Area (Sq Ft)	3,008,589
FAR	0.20
FAR Feet	600,000
Land Value	\$90,000,000
Value /FAR Ft	\$150.00

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Calculating Economic Benefit

1. Identify Current Land Values
2. Calculate New Value with New Zoning

Land Value /FAR Ft Potomac Yard Retail Center

FAR	Office		Retail ^{/1}		Residential /Unit	
	1.5	2.5	1.5	2.5	1.5	2.5
Metro	\$40.00	\$45.00	\$40.00	\$40.00	\$50,000	\$60,000
No Metro	\$36.00		\$36.00		\$45,000	

1. Assumes 30% retail in big boxes.

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Calculating Economic Benefit

1. Identify Current Land Values
2. Calculate New Value with New Zoning
3. Calculate the Difference

1.5 FAR, No Metro Office/Retail Mix Potomac Yard Retail Center				2.5 FAR, Metro Office/Retail Mix Potomac Yard Retail Center			
Existing Condition		1.5 FAR		Existing Zoning		2.5 FAR	
Land Area (Sq Ft)	3,008,589		3,008,589	Land Area (Sq Ft)	3,008,589		3,008,589
FAR			1.5	FAR			2.5
FAR Feet	600,000		4,512,884	FAR Feet	600,000		7,521,473
Retail	600,000	20%	902,577	Retail	600,000	20%	1,504,295
Office	0	80%	3,610,307	Office	0	80%	6,017,178
Retail				Retail			
Land Value	\$90,000,000		\$32,492,800	Land Value	\$90,000,000		\$60,171,800
Value /FAR Ft			\$36.00	Value /FAR Ft			\$40.00
Office				Office			
Land Value	\$0		\$129,971,000	Land Value	\$0		\$270,773,000
Value /FAR Ft			\$36.00	Value /FAR Ft			\$45.00
Total Value	\$90,000,000		\$162,463,800	Total Value	\$90,000,000		\$330,944,800
			Difference				Difference
			\$72,463,800				\$240,944,800

Calculating Potential

Legal Foundations

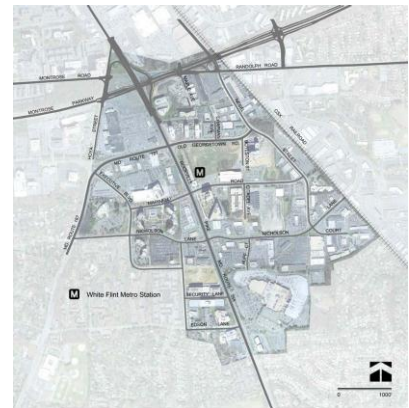
Developer Perspectives

Development Phasing

White Flint Sector Plan:

Economics Informing the Planning Process

- White Flint Area is currently a high-value, surface-parked commercial area
- Has transit access, but LOTS of traffic
- **Community initially wanted to limit density to avoid additional traffic**
- **Property owners weighed-in on the need for density to make re-development economics work**
- The economic issues informed the planning process



Calculating Potential

Legal Foundations

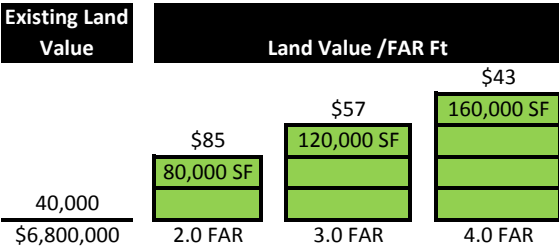
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Development Phasing

Calculating Economic Benefit:

Informing the Planning Process: White Flint Sector Plan

1. Identify Current Values



White Flint Existing Property Values	
Intensity	Avg Value /FAR Foot
2.0 FAR	\$85.00
3.0 FAR	\$57.00
4.0 FAR	\$43.00



Calculating Economic Benefit:

Informing the Planning Process: White Flint Sector Plan

- 1. Identify Current Land Values
- 2. Calculate New Land Values with Varying FAR's

Residual Land Value New Land Uses @ Different FAR's			
Floor Area Ratio	Land Value /FAR Foot		
	2.0	3.0	4.0
Residential/Retail Mix	\$44.77	\$7.23	(\$1.97)
Condo/Retail Mix	\$82.96	\$55.87	\$47.81
Office/Retail Mix	\$48.49	\$44.99	\$47.47

Note: Development cost increases as FAR increases.



Calculating Economic Benefit: Redevelopment White Flint Sector Plan: Land Owners' Perspective

1. Identify Current Land Values
2. Calculate New Value with Varying FAR's
3. Understand Implications

Redevelopment Feasibility @ Different FAR's			
Floor Area Ratio	Land Value /FAR Foot		
	2.0	3.0	4.0
Existing Land Value /Sq Ft	\$85.0	\$57.0	\$43.0
Future Land Use Value /Sq Ft			
Residential/Retail Mix	\$44.77	\$7.23	(\$1.97)
Condo/Retail Mix	\$82.96	\$55.87	\$47.81
Office/Retail Mix	\$48.49	\$44.99	\$47.47

Property owners agreed to special assessment to pay for transportation improvements.

Calculating Potential

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Development Phasing

Lessons Learned

- Master planning processes should include the market and economic perspective
- Financing plans should accompany Master Plans
- More public sector leverage when plans are developed in concert with private sector and market is “ripe”
- Communities should calculate regulatory requirements’ impact on development economics

Calculating Potential

Legal Foundations

Developer Perspectives

Development Phasing

Legal Parameters & Developer Perspectives

Foundations , Frameworks, & Perspectives

Enabling Legislation

- Virginia Enabling Legislation authorizes proffered rezonings and conditional use permits
- “Voluntary” Proffers must be agreed to by owner
 - the rezoning itself gives rise to the need for the conditions;
 - the conditions have a reasonable relation to the rezoning; and
 - all conditions are in conformity with the comprehensive plan

Legal Foundations

Developer Perspectives

Development Phasing

Infrastructure Financing

Why Proffers?

- Proffers typically address issues not required by “by-right” development
- Identifiable Community Benefits
- Enables localities to fund projects that cannot be managed by a single developer
- Benefits the development

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Infrastructure Financing

Typical Proffers

- Transportation Improvements
- Affordable Housing
- Open Space
- Green Building Standards
- Schools
- Fire Stations
- Enhanced Streetscapes

Legal Foundations

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Development Phasing

Infrastructure Financing

Proffer Amounts

- Setting proffer expectations early reduces development risks and set expectations
- Forces communities to make choices
- Excessive proffers endangers the project feasibility
- Not all asks are rationally related to development impact

Legal Foundations

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Development Phasing

Infrastructure Financing

Can We Deliver?

- The value in real estate is derived from the income it produces, or the income that it has the ability to produce.
- $\text{Value} = \text{Net Operating Income} / \text{Cap Rate}$
- Rezoning alone do not produce income
- Cost to construct must be less than the value

Developer Perspectives

Development Phasing

Infrastructure Financing

Community Involvement

Cost

Land	\$4,528,000
Sitework	1,750,000
Tenant Improvements	6,990,000
Construction Costs	15,502,000
Soft Costs	5,754,000
Total Cost	34,524,000
Contingency	<u>1,725,000</u>
Expected Cost	\$36,249,000

Value

Gross Rental Receipts (172,248 x \$24.10)	\$4,151,177
Vacancy and bad debt (5%)	<u>(207,559)</u>
Effective gross income	<u>3,943,618</u>
Operating Expenses (172,248 x \$7.90)	1,360,759
Net Operating Income (NOI)	2,582,859
Capitalized value @ 7.0% cap rate	<u>\$36,898,000</u>

Conclusion: Move to stage 2 since value exceeds cost

Developer Perspectives

Development Phasing

Infrastructure Financing

Community Involvement

Risk Premium Variables

- How much more return do I need over and above my zero risk return to make this investment?
 - Credit worthiness of the Tenant
 - Location
 - Lease Term
 - Adaptive re-use of the building
 - Saleability
 - Investors personal situation

Developer Perspectives

Development Phasing

Infrastructure Financing

Community Involvement

Multi-Year Analysis

- Taking a snapshot of the asset in the single period analysis is very informative, however it does not give us all of the information we need.
- Real estate development is high risk/high reward.
- Because a dollar received in the future can be less valuable for 3 reasons:
 - Opportunity Cost
 - Inflation
 - Certainty of Payment

Developer Perspectives

Development Phasing

Infrastructure Financing

Community Involvement

Development Phasing/Financing

Considerations

- Infrastructure needed to meet levels of service
- Community expectations
- Cash flow



Development Phasing



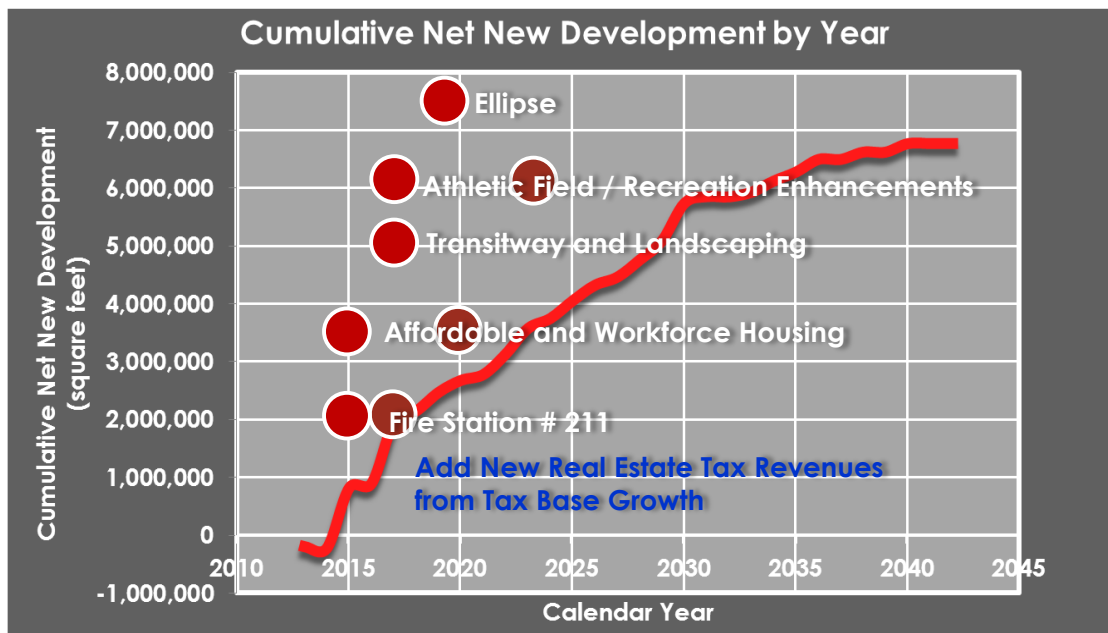
Infrastructure Financing



Community Involvement

Q&A

Development Phasing/Financing



Development Phasing

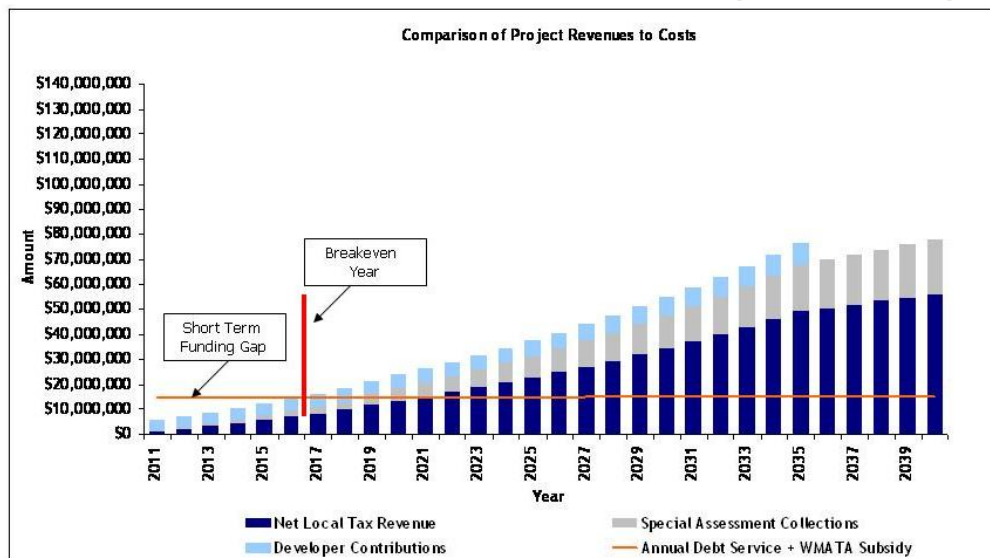
Infrastructure Financing

Community Involvement

Q&A

Development Phasing/Financing

North Potomac Yard Metrorail Phasing/Financing



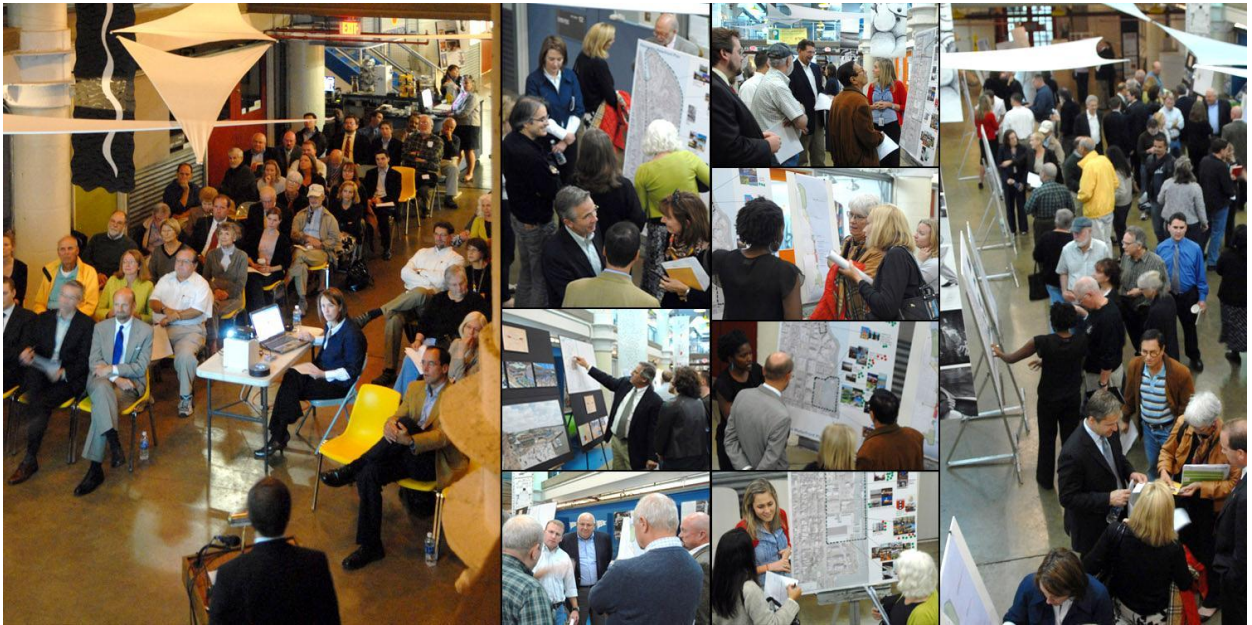
Development Phasing

Infrastructure Financing

Community Involvement

Q&A

Community Outreach



Phasing Development

Infrastructure Financing

Community Involvement

Q&A

Calculating Developer Contributions

A Value Capture Clinic